VZCZCXRO3380
RR RUEHAST RUEHBI RUEHCI RUEHLH RUEHPW
DE RUEHNE #2795/01 2981239
ZNR UUUUU ZZH
R 241239Z OCT 08
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC 3911
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 06 NEW DELHI 002795

SIPDIS
SENSITIVE

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

E.O. 12958: N/A
TAGS: EAGR EAIR ECON ECPS EFIN EINV ENRG EPET ETRD BEXP
KIPR, KWMN, PHUM, SENV, ASEC, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
OCTOBER 20 TO OCTOBER 24, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of October 20 to October 24, 2008, including the following:

-- MOF SECRETARY ON FINANCIAL CRISIS
-- CHIDAMBARAM PRAISES USAID FISCAL REFORM PROGRAM
-- SHIPPING INDUSTRY BRAVES THE SLOW DOWN
-- TRADE OPENS ACROSS THE LINE OF CONTROL
-- LIMITED LIABILITY PARTNERSHIP BILL INTRODUCED IN PARLIAMENT
-- COMPANIES BILL - A WELCOME CHANGE
-- INDEPENDENT AIRPORT REGULATOR BILL GAINS MOMENTUM
-- NO END IN SIGHT FOR TAMIL NADU'S POWER WOES
-- BHARTI WAL-MART TO BUILD TRAINING CENTERS IN PUNJAB

MOF SECRETARY ON FINANCIAL CRISIS

¶2. (SBU) Economic Counselor met on October 22 with Ashok Chawla, new Secretary of the Department of Economic Affairs, Ministry of Finance to discuss current economic and financial events. Chawla first stated that he was at the recent World Bank/IMF meetings in Washington, where he noticed a consensus that any future multinational planning for dealing with the current financial crisis needed to be expanded beyond the G-8 and made more broad-based. Chawla thought that the meeting of the G-20 group of developing countries with Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke was a good start, made even more so by President Bush's participation.

¶3. (SBU) Turning to the call for a global summit, Chawla stressed that all countries need to come together because the current situation goes beyond boundaries and the "world is one" where finance is concerned. The Government of India, for its part, is in the process of putting together its thoughts as to what line to take at the proposed summit. Chawla saw two themes for such a summit, first, handling the present crisis and second, a roadmap for the future. The GOI is convening a non-government group of senior economists and experts in diplomacy to consult over the next weeks about what should be global next steps. He expects the government decision-making to rise not just to the level of Finance Minister but to the Prime Minister. Chawla also noted that his office was talking to the Europeans and British on the proposed summit.

¶4. (SBU) In turning to the impact of the global financial crisis on India, Chawla conceded that the government and the regulators were grappling with day to day developments. He felt that the money and credit markets were settling down, but that the equity markets "are what they are", suggesting he expects continued volatility. ECouns asked about press speculation that some FDI caps might be eased, but Chawla only noted that such proposals have been "floating" around for a while. Chawla stressed that the government was very comfortable that GDP growth would come in around 7.5% for the current fiscal year, pointing to strong performance in the first half of the year. He pointed to the government and central bank efforts to increase liquidity in the system, but conceded that they still needed to make sure the money was actually lent out to businesses. He was pessimistic on parliamentary movement on pending financial bills, opining that such sensitive issues don't usually progress so close to elections. Finally, Chawla commended India's interagency coordination so far on the crisis, noting that it is not usually so good, but that circumstances require it now. He explained that the government has instituted a high level committee that meets once a month, headed by RBI Governor D. Subbarao, but that many on the committee communicate informally on a near daily basis by phone, email, and in person.

CHIDAMBARAM PRAISES USAID FISCAL REFORM PROGRAM
-- --

¶5. (SBU) Finance Minister Chidambaram took time out from the demands of the financial crisis and attending Parliament to speak at USAID's Reform Event, hosted by USAID Mission Director George Deikun, that marked the end of the program's fiscal reform support to the states

of Jharkhand, Uttarakhand and Karnataka. Chidambaram also formally inaugurated the release and launch of print and Internet resources for other states to use in rationalizing revenue and expenditures in state budgets. The event was well-attended by GOI officials and the finance secretaries of most Indian states, recognizing the importance of fiscal reform at the state level. Chidambaram's attendance demonstrated his fiscal hawk proclivities, which have been undermined by coalition politics in the last few budgets.

¶6. (SBU) Chidambaram started his remarks by thanking USAID for responding to the GOI's need for fiscal reforms at the state level. He pointed to the importance of the national Fiscal Responsibility and Budgetary Management Act, which many states have further adopted, as one of the most important reforms of the past five years. He claimed that these laws have strengthened the hands of state financial departments in dealing with their state colleagues who pressure them for more resources than are available. Chidambaram said he was glad to see that as of March 2008, the states' combined deficit to GDP was 2.7% and that for many states, revenues were in surplus. Chidambaram then turned to the four areas of USAID's REFORM program, first noting how revenue management capacity had improved and states are looking to rationalize and improve revenue streams. The Finance Minister praised the implementation of the value-added tax (VAT) which had raised revenues in most states, encouraging states to move next to the Goods and Service Tax (GST), which would rationalize taxes across the country and boost a national market for producers.

¶7. (SBU) Chidambaram regretted that on expenditure reform, too much state expenditures were still unplanned. While the shifted emphasis from outlays (only the disbursement of funds was measured) to outcomes (tangible results of spending like roads, schools) was welcome, there was not enough focus on the quality of the outcome - e.g., were children staying in school and receiving skills for the marketplace. On debt financing ability, Chidambaram observed that states have recently had a different challenge - managing surpluses. On project appraisal, the Finance Minister encouraged the state bureaucracies and finance secretaries to push their political leadership towards proper project choices; for example, choosing schools over parks and monuments. He ended with asking that the USAID practitioner guide be made available to all the states to further guide fiscal reform at the sub-national level.

SHIPPING INDUSTRY BRAVES THE SLOW DOWN

¶8. (U) The international financial crisis and liquidity crunch is impacting the Indian shipping industry. An estimated investment of $20 billion is needed by ship owners to replace parts of their ageing fleet and expand cargo capacity. Over the next four to five years, Indian fleets will have to undergo improvements to comply with International Maritime Organization's regulation. Major Indian shipping companies like the Shipping Corporation of India, Great Eastern, and Essar Shipping had firmed up their funding requirements before the financial downturn and placed orders for 58 ships from Korea and China valued at $3.3 billion. So far, Indian ship-owners have relied on European banks, particularly those located in Scandinavia and the Nordic region, for financing. This is primarily due to the cheaper funding from these specialist banks as compared to local funds and also the fact that Indian banks cannot lend money for long periods. In general, while Indian banks provide lending for two to three year periods, shipping firms typically need money for tenures ranging between eight and 15 years.

¶9. (U) During this time of global financial slowdown, media reports that the European banks are nervous about over lending and risky lending and have started asking for more and more covenants from ship-owners, including long-term contracts for new ships. Speaking at the "India Shipping Summit" in Mumbai, Tobias Konig, Managing Partner of Hamburg based shipping investment firm Konig and Cie GmbH, said that most of the European banks have closud their books for ship financing in 2008 and there will be no new business in ship financing for the rest of the year. The debt will be more expensive

for ship-owners than ever before because banks are looking to get their money back to reduce their risk. In turn, smaller shipping companies are postponing their expansion plans while major players are trying to hold on to their current orders. Indian ship owners may now need to consider larger amounts of internal contributions and new sources of funding to pull through the current financial turmoil.

TRADE OPENS ACROSS THE LINE OF CONTROL

¶10. (U) For the first time since 1947, an old trade route was reopened at the Line of Control (LOC) on October 21 in Jammu and Kashmir. Enthusiastic businessmen view the move as a "breakthrough for India and Pakistan" and hope that this will result in closer ties. According to media reports, the opening of road trade at the LOC witnessed a few trucks of pulses, dry fruits, spices, and honey crossing in either direction.

¶11. (U) The leader of Pakistan managed Kashmir, Prime Minister Sardar Attique Ahmed Khan, has reportedly said the trade would lead to closer relations between the two sides. A Pakistan Chamber of Commerce member claimed that, given the opening of what has been a natural trade route, merchants will save time and money. Many export goods from Jammu and Kashmir, for example, could flow through the port in Karachi, rather than via a circuitous route through India. In general, the business community on the Indian side has welcomed the latest initiative and largely views it as a confidence-building measure. While trade across the LOC is expected to benefit both economies to some extent, both sides also note that trade across the LOC is not going to be substantial given the lack of infrastructure, finance, and a legislative framework.

¶12. (SBU) COMMENT: For now, the benefits of this small window of trade across the LOC are largely political, rather than economic. Nevertheless, this initiative is a positive gesture and confidence building measure, with potentially significant implications for economic growth in the future. Initially, trade will only be permitted in 21 items twice a week. This highly restrictive approach unfortunately characterizes much of South Asian trade, including the South Asian Free Trade Agreement (SAFTA). South Asian economic integration remains stunted, with intra-regional trade constituting 5 percent o the region's total trade, compared to 26 percent for ASEAN. If expanded in the future to encompass more

goods, including in areas like textiles and a broader range of agricultural items, cross-LOC would be economically beneficial for both India and Pakistan. There is significant scope for an integrated supply chain across the LOC, especially in agriculture and textiles.

¶13. (SBU) Next steps to add momentum to the opening of cross-LOC trade would be to expand the list of tradable goods and scale up infrastructure in the area to support a greater volume of trade. In a region that is constantly struggling for peace, especially at a time of rising terrorist activity in South Asia and in Jammu and Kashmir, opening up of trade across the LOC is a very positive step for Indian-Pakistani relations. END COMMENT.

LIMITED LIABILITY PARTNERSHIP BILL
INTRODUCED IN PARLIAMENT

¶14. (U) On October 21, 2008, the GOI introduced in the Rajya Sabha (upper house of Parliament) the Limited Liability Partnership (LLP) Bill, 2008, aimed at giving professionals flexibility in setting up a new business structure (combining aspects of a partnership and a corporation) so as to benefit from corporate limited liability, while utilizing the management structure of a partnership. The bill was first introduced in Parliament in 2006, but subsequently withdrawn and referred to a parliamentary standing committee for revisions. Under the newly introduced bill, while an LLP will be a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed capital

contributions in the LLP. The Bill proposes that relevant provisions of the Companies Act, 1956, may be made applicable to LLPs by a notification by the Union government, if required. Currently, partnership firms cannot have more than 20 members, but LLP structures have no such limit.

COMPANIES BILL - A WELCOME CHANGE

¶15. (U) On Thursday, the 2008 Companies Bill was introduced in Parliament. This new legislation replaces the 52-year old Companies Act and intends to modernize the structure for corporate regulation. The bill is expected to be referred to a standing committee for further study. Minister of Corporate Affairs told the media that, "The Bill reinforces shareholders' democracy, facilitates e-Governance, recognizes the liability of boards, directors and senior management personnel of companies. It also provides for a new scheme for penalties and punishment for non-compliance or violation of the law." The Bill standardizes corporate regulation with action by sectoral regulators, incorporates a new framework for mergers and amalgamations of companies, and provides an extensive insolvency code based on the latest principles, as recommended by the United Nations Commission on International Trade Law.

¶16. (U) Rajiv Memani, Chief Executive and Country Managing Partner of Ernst and Young commented that the bill "has proposed some far-reaching changes in the statutory framework and is expected to address the business and investor community's desire for a more contemporary and effective regulatory environment. It primarily seeks to reduce government control over corporate processes, impart greater transparency, focus on corporate governance, stricter compliance requirements, and greater accountability to stakeholders." In response to a question about how the bill overlaps with the SEBI Act, Minister Gupta said that the GOI does not see any overlap with regulating the capital market.

¶17. (U) The bill include a provision that requires a minimum of one-third of the total number of directors in listed companies be independent; for other public companies, the requirement and number may be prescribed through rules. Analysts observe that the bill is likely to specify an independent director as a non-executive director who does not (and his relatives do not) have a direct or indirect pecuniary relationship or transaction with the company. The bill prohibits companies from raising deposits from the public unless they are structured in a way consistent with other

regulations under banking laws. For example, if a company wants to raise deposits, it has to float a non-banking financial company (NBFC), which is governed by a RBI Act. The bill prohibits insider trading by company directors or key managerial personnel and such activities can give rise to criminal liability. To protect investor interests, the bill permits shareholders' associations or group of shareholders to take legal action in response to any fraudulent action by the company and to participate in investor protection activities and class action suits.

INDEPENDENT AIRPORT REGULATOR
BILL GAINS MOMENTUM

¶18. (U) On October 23, the lower house of Parliament passed the Airport Economic Regulatory Authority (AERA) Bill to create a level playing field and foster healthy competition among all major airports. This includes all government-owned, public-private, and privately operated airports. The bill also encourages investment in airport facilities, regulates tariffs of aeronautical services, seeks to protect user interests, and monitor airport operations. AERA will consist of a chairperson and two others who will be appointed by the Central Government from those with knowledge and professional expertise in aviation, economic law, commerce, or consumer affairs. If the AERA is deliberating on a matter that pertains to a defense airfield, the Ministry of Defense will be represented by an additional member.

¶19. (U) The AERA will (a) determine the tariff structure for aeronautical services; (b) determine the amount of development fees for major airports; (c) determine the amount of passenger service fees to be levied under the Aircraft Rules; (d) monitor the performance standards related to quality, continuity, and reliability of service as may be specified by Central Government or any authority authorized by it; (e) call for information as may be necessary to determine the tariff. AERA will also have the power to impose penalties for willful failure to comply with its orders and directions under the Act.

NO END IN SIGHT FOR TAMIL NADU'S POWER WOES

¶20. (U) The Tamil Nadu government (TNG) backtracked from an attempt to penalize those consumers who used more than 300 units per month in the face of political and business opposition. The TNG proposed that those who consumed more than 300 units pay 50 percent premium for the additional power consumed over and above the ceiling. High tension industrial consumers (including Consulate Chennai) were asked to reduce consumption by 40 percent and go off the grid during the peak period b%tween 6:00 pm and 10:00pm. The proposal also required industries connected to the low tension grid to cut consumption by 20 percent and pay an additional 50 percent for power consumed over and above the permissible 300 units per month.

¶21. (U) The proposals set off a firestorm of opposition. Jayalalithaa, the General Secretary of the TNG's main opposition party, the AIADMK, told press that mass employment would result from the decision. She termed the move as the first step toward the collapse of the small-scale industry in the state, and threatened to launch a state-wide agitation against the measure. The South India Chamber of Commerce and Industry also opposed the decision, announcing that many chamber members would go under because of the lack of power.

¶22. (SBU) The TNG withdrew the proposal on October 22. The withdrawal demonstrated the paralysis affecting the state's political leadership on the question of rationalization of power tariffs and management of power supply. The TNG faces a 10 percent shortage in generating capacity at present. Although several new generation units are under construction, it will take a year or two for them to become operational. In the meantime, the TNG faces some tough choices, and it is not clear how it will proceed.

BHARTI WAL-MART TO BUILD

TRAINING CENTERS IN PUNJAB

¶23. (U) According to media sources, Bharti Wal-Mart Pvt. Ltd initiated talks with the state government of Punjab about the creation and development of training facilities. Bharti Wal-Mart, a joint venture (JV) between Bharti Enterprises and Wal-Mart Stores Inc., plans to open its first cash-and-carry wholesale outlet near Chandigarth, the capital of Punjab, in early 2009. Over the next seven years, the company is expecting to open 10 to 15 more outlet stores and to employ approximately 5,000 people. As a result of the talks, the Punjab government may offer Bharti Wal-Mart free land to build infrastructure and institutes, which the JV would train employees and provide education in retail and cash-and-carry operations.

¶24. (SBU) Comment: Bharti Wal-Mart's likely entrance into a public-private partnership with the Punjab government may provide a useful model for other retailers positioning themselves to enter the Indian market who will also require a supply of well-trained employees. According to a report released by McKinsey and Company earlier this month, India is likely to be a $450 billion retail market by the year 2015, with organized retail growing from the current 5 percent to 14-18 percent of the total retail market by the same year. In order to meet this demand, McKinsey predicts that over 1.6 million jobs will be created to support the retail sector in the next five years. End comment.

¶25. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

White